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# Jim Powell: Tax hikes will only make us all poorer

**01:00 AM EDT on Monday, August 22, 2011**

**By Jim Powell**

WASHINGTON

President Obama and his comrades repeatedly demand that the rich pay more to close the budget deficit, implying that the rich pay little or nothing now.

Yet according to the IRS, the top 1 percent of taxpayers — subject to the highest tax rates — are already generating almost 40 percent of total federal income-tax revenue.

Moreover, the top 5 percent of taxpayers generated more personal income-tax revenue than the bottom 95 percent.

About half of taxpayers don't pay any federal income taxes.

It's a fantasy to imagine that Obama's spending blowout can be financed by further squeezing the "millionaires and billionaires" he keeps talking about. There are three principal reasons why.

First, Obama is trying to win broad support for soak-the-rich taxes by suggesting that the overwhelming majority of the population would be exempted, but this would make government finances depend on a comparatively small number of taxpayers.

The 2010 Forbes list of the 400 richest Americans had assets totaling $1.37 trillion. Even if all of this wealth were expropriated, it wouldn't be enough to cover Obama's deficits for a single year — and the following year these people wouldn't be paying any taxes since Obama would have spent it all.

Truth be told, Obama recognizes there aren't enough rich people to pay for everything. That's why he has expanded the number of "millionaires and billionaires" to include those who earn more than $200,000. As runaway government spending continues, soak-the-rich taxes will have to hit more people — the "millionaires and billionaires" earning $100,000, then $50,000 and perhaps even less.

That means you!

The second problem with higher taxes is that they increase incentives for people to reduce their tax liabilities and undermine the tax base. As state soak-the-rich taxes have made clear, it doesn’t take many resourceful taxpayers to cause revenue shortfalls.

Massachusetts Sen. John Kerry berthed his $7 million yacht in neighboring Rhode Island, which didn’t have a boat sales tax, apparently aiming to save himself a tidy $400,000 plus a $70,000 annual excise tax. New York Rep. Charles B. Rangel understated his personal holdings in the Congressional Federal Credit Union by a factor of 10. He also failed to report a hoard of stocks, mutual-fund shares and real-estate holdings. Ohio Sen. Howard Metzenbaum spent his political career promoting higher taxes, but after he retired, he moved to Florida and dodged Ohio’s estate taxes on the fortune he had previously made in the rent-a-car business. Not to be overlooked are Barack Obama’s appointees, starting with Treasury Secretary Timothy Geithner, who paid their taxes only after they were publicly humiliated.

Hoover Institution economist W. Kurt Hauser observed that during the past six decades, tax revenues as a percentage of GDP have hovered around 19 percent, despite changes in tax rates. This was true even when the top federal income tax rate was 92 percent (1952-53).

The third problem with higher taxes is the fact that the federal government almost always spends all the revenue it has, and then some.

The modern era of almost non-stop federal budget deficits began eight decades ago, in 1930. Since then, there have been many tax hikes large and small — but just 12 balanced budgets. There have been balanced budgets only 15 percent of the time in this period; there was a 27-year stretch (1970-1997) with lots of tax hikes but not a single balanced budget.

Over and over, we see that if there’s higher tax revenue, politicians spend it all, then they spend some more, which means more deficits and debt.

The bottom line is that soak-the-rich taxes cannot be counted on to fund the vast middle-class entitlement programs, as well as bloated discretionary spending and military intervention around the world. The issue is runaway spending.

If Obama and Congress were to make a budget deal with tax hikes, they would make it harder for the economy to grow and create more jobs. That’s because higher taxes discourage whatever activity is taxed.

Higher taxes on income tend to reduce the amount of work people do. Higher taxes on savings reduce saving. Higher taxes on investment reduce investment. Higher taxes would make us all poorer.

Jim Powell, a senior fellow at the libertarian Cato Institute, is the author of “FDR’s Folly,” “Wilson’s War,” “Bully Boy,” “The Triumph of Liberty” and other books.